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UNCLAS SECTION 01 OF 02 MEXICO 000206

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SENSITIVE

STATE FOR WHA/MEX, WHA/ESPC, EB/IFD/OIA  
STATE FOR EB/ESC MCMANUS IZZO  
STATE PLEASE PASS TO USTR (EINSENSTATE/MELLE)  
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GERI WORD  
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SUBJECT: AMBASSADOR DISCUSSES ECONOMY WITH MEXICAN-BASED U.S.  
EXECUTIVES

REF: MEXICO 146

1. (U) Summary. The Ambassador met with a group of Mexico based executives for U.S. companies to discuss the economic situation in Mexico. The leaders were pleased with the Calderon Administration's performance. They believed energy reform would be less extensive than needed to stem Mexico's declining production. They strongly supported NAFTA and were not concerned that Mexican street protests would lead to its renegotiation. They suggested that the USG help citizens understand how Mexican immigration benefits the U.S. economically. End Summary.

2. (U) On January 23, 2008, the Ambassador met with executives from various Mexican based U.S. companies to get their perceptions of the Mexican economy and key issues that affect the overall business climate. Attendees included representatives from Chevron Energia de Mexico, American Express Company Mexico, Lexmark International Mexicana, Halliburton Energy Services Group, Oracle de Mexico, Colgate Palmolive, Sun Microsystems de Mexico, MetLife, and Kimberly-Clark de Mexico.

3. (U) The executives began with a discussion of the possible affect to the Mexican economy of the current U.S. economic slowdown and whether Mexico would be able to weather a U.S. recession. They agreed that the Government of Mexico (GOM) has taken the steps to shore up their macroeconomic position and that the country has enough economic stability to survive a U.S. recession. The executive from Kimberly-Clark made the point, however, that despite Mexico's economic strengths, the country will still suffer since it is so highly dependent on the U.S.

4. (U) The executives noted that, during this sensitive political time, the Calderon Administration is "funding its way through a mid-term election" with strong levels of government spending. The representative from Sun Microsystems noted that the government has made many large purchases in the Information Technology (I.T.) sector, particularly to develop software to improve social services (e.g. medical data software). The conversation then moved to the global I.T. competition and India. Specifically, the executives discussed how Indian companies are hiring workers in Mexico. (Indian company Tata Consulting Services has set up a deliver center in Guadalajara Mexico and plans to hire 5,000 in staff over the next five years). The Indian executives have said that Indian labor costs have risen to the point that Mexico is a viable alternative for servicing the North American market.

5.(U) The executives were pleased with the Calderon administration and agreed that Andres Manuel Lopez Obrador (AMLO) plays an important part in Calderon's approval because in his politically weakened state he is a constant reminder of what could happen in the absence of a more market friendly president.

6.(U) The executives suggested that the next big reform would be in energy although justice reform was needed as well. The representative from Halliburton noted that Mexico is the only country in the world that does not allow private investment in the oil sector and even Venezuela, "with all of Hugo Chavez's rhetoric" still allows some private participation. He said that Pemex, the oil parastatal, will have a difficult time maintaining a three million barrel per day output since it does not have the capabilities for needed deep water exploration and production (upstream). Mexican oil production declined 10% over the last year and subsequent declines will eventually have an effect on the national budget which is heavily oil dependent.

7.(U) The GOM has signed agreements whereby technology and personnel are shared between Pemex and private companies, but constitutional changes would be necessary to allow upstream investment. The representative from Kimberly-Clark said that there would be reforms passed, possibly in the March-April 2008 timeframe, but it would not be enough. The reform could allow limited partnerships for upstream under severe constitutional restrictions, but only with other state owned oil companies. Any constitutional changes were very unlikely as key lawmakers have publicly denounced opening the sector to private investment.

8.(U) The executive from Chevron noted that, despite the important of energy reform and the private sector's desire to invest in the Mexican oil industry, she was not allowed to lobby the Mexican congress for changes to the constitution. The Halliburton

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representative concluded, however, that they were happy with the amount of business they did in Mexico and were still able to win many contracts for oilfield services.

9.(U) The Ambassador then steered the discussion to trade and agriculture. He asked if the executives had an opinion of the current agricultural debate (reftel), specifically what the executives thought of the job Mexican Agricultural Secretary Alberto Cardenas Jimenez was doing. The executives believed that Cardenas was not doing a good job, adding that it was hard to tell whether it was because he was trying to shut down the discussion on NAFTA or if he was simply a bad politician. They agreed that the real test would be on January 31st when a series of large anti-NAFTA protests are scheduled, though they didn't believe that there would be enough force behind the protests to cause a redressing of the Agreement. They further agreed that any redressing of NAFTA would be a bad idea and would be almost impossible to pass either the U.S. or the Mexican congress with current political sensitivities.

10.(U) The Ambassador noted that free trade agreements are not always looked upon as beneficial by the American public and NAFTA in particular is linked to immigration in the public perception. The executives wondered whether the American public understood the importance of immigration to the general economic health of the United States. They said that the U.S. is capital heavy, Mexico abundant in labor, and the free flow of those factors benefit both countries. The executives agreed that the American public does not fully grasp the U.S. and Mexican population pyramids and the positive effects of the labor flow. They also discussed the possibility of discussing immigration reform in conjunction with the social security debate in that the overwhelmingly young Mexican immigrants could be used to fund benefits for the ageing native-born population.

11.(U) The executives noted that the flow of U.S. citizen retirees to Mexico is important as well. They said that these retirees are very important economically to Mexico and the GOM needs to encourage them. The executive from Oracle suggested U.S. laws be changed to allow Medicare to be used in Mexico. The group said that Mexico

should change their laws to allow for easier permanent residency, thereby leading to an increase in the number of permanent U.S. retiree expatriates.

12.(U) Comment: While the executives are, for the most part, resident in Mexico, they still maintain a strong understanding of the current U.S. situation. They understand that 2008 will be a very difficult year on both the political and economic fronts, and did not appear to expect major changes from either government. Despite a few complaints about problems they have faced in running their businesses, they seem confident in Mexico's economic stability and pleased with the overall business climate.

GARZA